

MEMORANDUM

SUBJECT: Useful Life Financing of Environmental Facilities

FROM: Charles E. Johnson
Chief Financial Officer

TO: Stephen L. Johnson
Deputy Administrator

On behalf of the Environmental Financial Advisory Board (EFAB), I am pleased to transmit to you the attached White Paper entitled *Useful Life Financing of Environmental Facilities*. The paper examines the advantages and disadvantages of amortizing bonds issued for environmental facilities over longer periods of time, thus extending the loans to match the useful lives of such facilities, as opposed to the more typical municipal practice of amortizing debt over periods much shorter than the useful lives of such facilities.

By using an amortization period consistent with useful life financing, environmental facilities can be more affordable on a year to year basis, and the cost of those facilities can be distributed more equitably across current and future beneficiaries of the facility. By applying the useful life approach rather than a shorter amortization period, communities can significantly reduce annual debt service costs for new facilities, and the savings realized can be used to fund improved asset management or additional capital projects.

While it makes no formal recommendations, the Board believes these issues concerning environmental facilities are timely and pertinent to the financial climate challenging communities nationwide and encourages the Agency to support this concept and distribute this paper widely.

As a next step, the Board plans to consider whether the issues raised in this paper might have application to the Agency's continuing oversight of the state revolving loan programs for drinking water and wastewater infrastructure.

Attachment